Chain Age

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Wholesale Clubs: Retailing Behind Closed Doors

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Narrowing the Gender Gap

Betsy Sanders began her retail career at Seattle-based Nordstrom's as a salesclerk in 1971. Since 1980, however, she has been vp for the southern California division of the family-owned soft goods chain. Along the way, as she was being encouraged to pursue a career in retailing, she was offered the position of buyer. She nixed it in favor of a store manager slot—and "knocked everybody's socks off," she says today. "No store managers were women then."

Female store managers are no longer an anomaly, at least at department and specialty store chains, but women who have reached the executive level are still in the minority. While 70% of all retail industry employees are female, only about 7% are at management level or above.

However, the number of women earning "management level" salaries has more than doubled between 1970 and 1981, according to Helen Axel at The Conference Board, based on minimum "executive level salaries" for the two periods ($15,000 in 1970; $35,000 in 1981).

Nor is retailing lagging perceptibly behind the nation as a whole: As of August '83, according to the Bureau of Labor Statistics, only 7.9% of all adult working women held executive/administrative/managerial jobs.

Of the top 300 financial, service and retail firms, 56.4% have at least one woman on the board of directors. A *Chain Store Age* survey of the top chains in each retail tier reveals that almost 61% have at least one woman sitting on the board of directors. Here, retailing is somewhat ahead of the game.

Department stores boast an average of 1.6 women per board; Sears, with three female directors, has the highest number among the top retailers. The discount industry has the poorest performance; of the top five discount chains, only K mart has women on the board. Both the specialty and variety tiers have an average of less than one woman per board.

While 70% of all retail industry employees are female, only 7% are management level or above

As retailers have trimmed management jobs in cost-cutting moves, professional/managerial jobs, as tracked by The Conference Board, declined 35% between 1970 and 1981. At the same time, women at this level, earning "management-level" salaries, increased 13%.

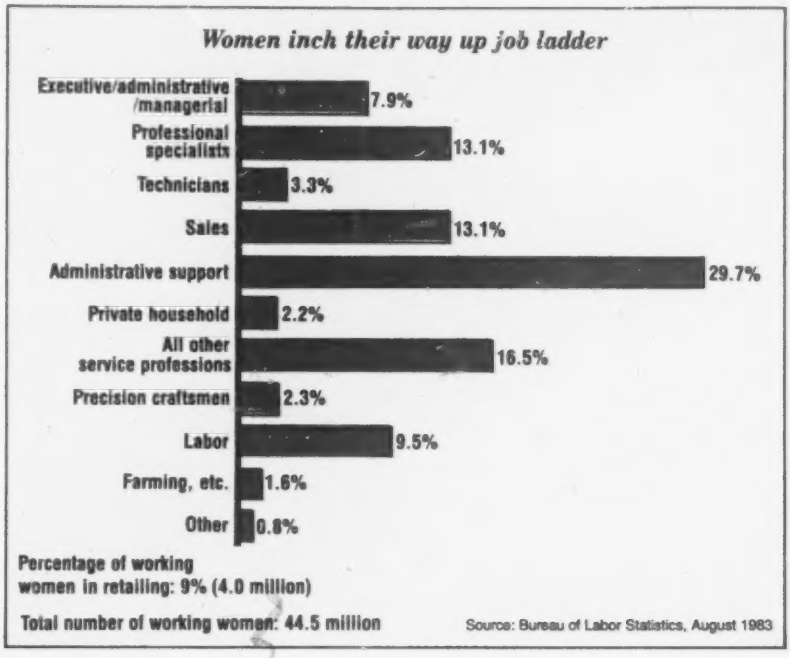
Lower salary history: Actually, there may be more women at the management level in retailing but who are not earning the base salary level, Axel hypothesizes. This may be because women have been entering management through different paths from men and bringing with them a lower salary history. According to a recent Bureau of Labor Statistics survey, women nationwide still earn less than 62% of the median male salary.

The disparity is narrowing slowly, but it is still in evidence in high-paying jobs, where women often have less seniority and command lower salaries. Only 10% of all adult American women working full-time last year earned over $20,000, the study shows.

While women in retailing are still relegated to the bottom of the pyramid, with only a few female principals (presidents, chairmen or chief executive officers) standing out, a change within the next five years is expected, say industry insiders. They point to the current crop of bright, highly motivated women at the vp or middle-management level who are ripe to be plucked as principal slots open up.

"There are already large numbers of women at the middle-management rank," says Jacquie Reynolds-Rush, vp/personnel at Hayward, Calif.-based Mervyn's, a division of the Dayton Hudson Corporation. "And more females are interviewing for executive trainees. Given that pool of people to draw from, there are going to be many more women at the top levels. I don't see any way it's *not* going to happen."

"Women have been slow getting to the upper level," says Pat Belardi, vp/gmm at Mervyn's. "But there wasn't the pool to pick from. The sheer number of women to choose



from today means more will get to the top, unless someones says, 'We're only going to promote men.'" Neither Belardi nor Reynolds-Rush feels that is the case at Mervyn's, where, says Reynolds-Rush, "the status of women is certainly as good as that of men." Today, Mervyn's boasts five women at the vp level; five years ago there were none.

Playing catch-up: Feeling that retailing has lagged behind other industries in promoting women, several department store companies are making concerted efforts to play catch-up. "We're pretty concerned," says James Andress, operating vp/executive staffing and development at Federated. "We need more women at the top of the industry, since we have so many at the base." While Andress acknowledges that more women than ever before have advanced to the middle, he says, "We have to be careful that some break out of that middle level now." Federated currently has no women at the principal level. Two women serve on the corporate board of directors.

Andress adds that Federated is not the only chain looking to promote qualified women. He cites the May Company and Associated Dry Goods as department store chains with fairly good track records. May Company has one female principal, Judith Hofer, who moved from the presidency of Meier & Frank to that of the May Co.-Calif. eight months ago. She just recently added the ceo title. ADG has Pamela Grant as director of its Scottsdale, Ariz.-based Goldwater's division.

Department stores have the best records in terms of promoting women, but they've also traditionally attracted more women because of their "fashion ambience," says one industry insider. "Fewer women were attracted to discount stores. They wanted to be in fashion, and discounting isn't fashion, they thought," she says. Today, women are moving up the ranks at both discount and variety chains.

Fashion trap: Actually, department stores' "fashion image" is something of a trap for women setting a career in retailing. "Some people, when they find out what I do, think, 'Well, it's fashion,'" says Maxine Kelly, vp/gmm at Federated's Houston-based Foley's division. "Department store retailing is not a business run by fashion statements," she declares. "It's a business run on return on investment." Kelly feels that women who have made it to the top in retailing have done so because of their business acumen, not any gender-related "feel for fashion."

While many women who have made it to higher levels in retailing believe gender is not at issue, they also believe that women have to work harder to get ahead. Says one female discount exec, "It's not a case of discrimination. It's a case of people who are willing to make sacrifices to get there. And it's still true that women have to make more sacrifices than their male counterparts, and are limited by a lack of flexibility. In the past, I don't think women really wanted to get ahead, to be president," she continues. "Now they do."

Many are, like that exec, single and thus able to be flexible. She cites May Co.'s Hofer as an example: "She's at her desk at 6:30 in the morning. I know—I've called her then." On the flip side, she points to Goldwater's Grant as a woman who could get further ahead in the corporate hierarchy if she chose to. Instead, industry insiders say Grant has been hampered by her decision to stay in the Phoenix area with her husband.

More than women's issues: With more women reaching the middle levels of retailing, major retail firms are being forced to be more accommodating—not just to women's issues, says the discount exec, but *people* issues, such as divorced fathers raising children.

"The idea of moving people around the country is just not as easily done anymore," says Mervyn's Belardi. "Companies are more aware of people's needs." She points to Mervyn's efforts to find compatible employment for all spouses —male or female—affected by Mervyn's newly created Southwest division.

For all the disclaimers that it is irrelevant, gender is still an issue at the very top levels of retailing. Perhaps five or 10 years down the road, the question will no longer be important. The turning point will come, says Nordstrom's Sanders, "when you stop making a huge commotion about a woman being picked as ceo. Then we'll have made it. But it hasn't happened yet." □

Department stores boast strong increases

Based on this year's performance, with volume expected to close the year up 14.8% over 1982, retailers are optimistic about next year's domestics sales. Nine out of every 10 merchants polled by *Chain Store Age* expect year-end '84 sales to climb, averaging an 11.8% jump.

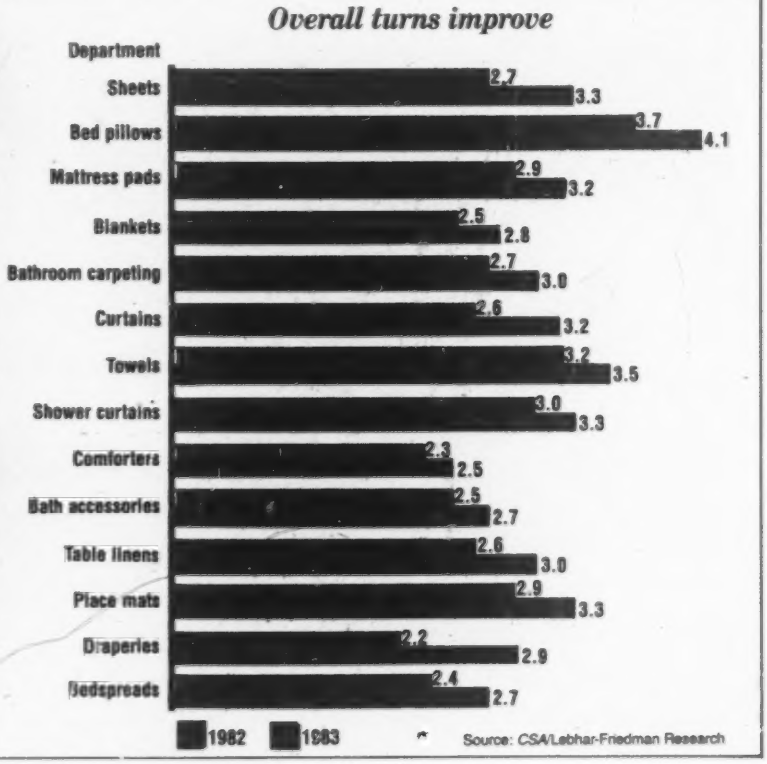
The No. 1 reason cited is "Business is up." Other responses, in order of priority, include "Good product mix at the right prices," "Promotions and advertising," and "The economy is turning around."

Department stores are heading into '84 in the best position. The majority had a better year last year than discounters and variety stores, reporting a 33% increase, while only one in five say sales were stagnant. Fashion merchandise accounts for 35.4% of sales, and basics for 64.6%, compared with the composite average—27.6% fashion/72.4% basics—reported by the department, discount and variety store merchants.

Of those discounters whose sales grew, the increase was 14.7%; at the variety stores, those that had increases noted a 14.6% gain. A decline in sales, reported by 7% of both the discounters and variety stores, was greater for discounters at a 16.5% drop in volume than for variety stores, down 4%. Flat sales were noted by 7% of the variety stores and 13% of the discounters. Additionally, fashion sales comprised only 22% of the discounters' total and 18.5% of the variety stores' volume.

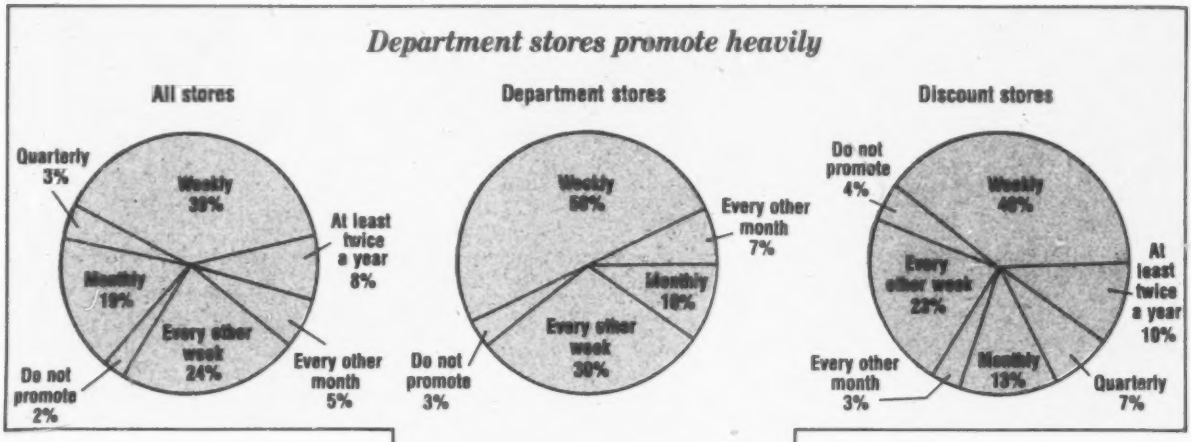
The data suggests that some variety and discount store customers may still be cutting back on domestics purchases, perhaps because of the troubled economy. It also implies that shoppers looking for fashion goods are choosing department stores—which could also explain the sales decline at the variety and discount operations.

Nonetheless, discounters and variety stores generally have a better-developed business than department stores, possibly due to their strong sales in basics. In fact, the discounters and variety stores are said to have highly developed domestics sales, with department volumes contributing 10% and 9.6% of the total discounter and variety



Survey methodology

Chain Store Age's *survey results are based on responses from 75 selected retailers in telephone interviews conducted this past September. In all, 30 department store executives, 30 discounters and 15 variety store merchants were polled. The department stores averaged 16.6 stores with annual sales volume of $229 million; the discount stores had an average of 39.5 units with annual sales of $202.9 million, and the variety store sample averaged 305 stores with yearly volume of $322 million.*



store sales, respectively.

Department stores have room for improvement here. Domestics sales account for only 6.4% of their total store sales, approximately on target with the 7% of sales contribution department stores are shooting for.

But despite these differences, the study shows the domestics department is very important to all three types of operations. Retailers, across the board, are bolstering strong points and re-evaluating weaknesses, looking for ways to improve them.

While most department stores left the number of sku's constant from last year to this year, 2 out of every 5 increased sku's, and another 17% decreased them. Of those department stores increasing the number, the execs say they've added merchandise at the low and medium price points. This suggests that 40% of the department store merchants may be targeting the discount and variety store customers.

The 17% that decreased sku's say they concentrated the cuts in the lower price points. This implies that customers were not buying the lower-priced items at department stores or that these merchants are trading themselves up out of these footballed price points.

Again, discounters and variety stores were similar when it came to adjusting assortments. Both tiers found 27% of their chains cutting back on sku's. Roughly one-fourth of the variety stores and one-fifth of the discounters increased their sku's, with the remaining chains leaving the number of sku's alone.

Strong sales in basics still give discounters and variety stores a better-developed business

However, the two tiers differed when they translated adjustments to price points. Variety stores increased evenly at the medium and high ends, perhaps their weakest areas, while discounters bolstered the medium steps, capitalizing on their strengths.

Discounters that decreased sku's chopped from the high end. Like the department stores cutting at the low price points, perhaps the discounters found that customers were shopping elsewhere for this merchandise. On the other hand, variety stores cut sku's from the lower end, suggesting a push for better sales of higher-priced goods.

Although most retailers kept the number of sku's constant, all operations report square footage increases this year over last. This implies additional space has been allotted for display purposes.

Department stores devote the most area to the category—an average 3,541.4 sq. ft.—and boast the highest gross margins. The average domestics area grew 15.5% over last year's 3,065 sq. ft. Additionally, two-thirds of all department store execs polled say their gross margins exceed 36%; 2 out of every 5 say gross margins are better than 41%.

This compares with discounters, whose average domestics department is 2,456.2 sq. ft., up 1.4% over last year, and variety stores, which average 189 sq. ft., an increase of 2.7% over last year's department. Gross margins for the majority of discounters is under 35%: only 20% of those polled say margins exceed 36%. At the variety stores, 20% say their gross margins are better than 36% but less than 41%, 20% say they run between 31% and 35%, and another 33% say they are below 30%.

The most significant increase in department footage was in draperies, bedspreads, towels and sheets. Drapery departments increased at both discounters and variety stores from 156.4 sq. ft. to 188.8 sq. ft. and 13 sq. ft. to 15 sq. ft., respectively.

For department stores and discounters, towel departments jumped in size. At a department

store, the average towel section measures 539.5 sq. ft., up from 462.5 sq. ft. Discounters use 176.2 sq. ft. to merchandise the category, up from 170.9 sq. ft. In addition, bedspreads gained footage at department stores and sheets expanded at discounters.

Inventory turns, reported in the survey, reflect these changes, as well as showing an overall improvement in every department (see chart). For all retailers, the draperies category was the most improved this year over last, with annual turns increasing from 2.2 to 2.9. Sheets also picked up from 2.7 times a year to 3.3.

As for promotions, department stores are still the leaders. Approximately 80% of them promote weekly or biweekly compared with two-thirds of the discounters, which promote as frequently.

Variety stores, on the other hand, promote least often. Almost half of these merchants say they promote monthly, with another 26% promoting weekly or biweekly (see chart).

Not surprisingly, the survey notes that 49% of all merchandise sold is on promotion. Department stores were somewhat higher than the average at 63.9%, while discounters were much lower at 36.9%. The variety stores were the closest to the average with 47.5%. □

Soft towels gain in popularity

The soft towel will gain shelf space at the expense of terry and nonsheared on shelves at department stores and discounters during the next two years, according to *CSA's* recent retailer survey.

Approximately one-third of the discounters and one-third of the department store execs anticipate changing present solid towel mixes by increasing the sku's in soft and reducing sku's in the terry/nonsheared classification. Currently, the average department store mix runs 23% sheared/velour, 57.6% nonsheared/terry and 19.4% soft; at discounters, the mix runs 30.7% sheared/velour, 60.1% nonsheared/terry and 9.2% soft for discounters.

At the department stores, this will bring the ratio of soft towels to sheared closer together, suggesting confidence by the more fashion-forward retailers in the strength of this new category. Discounters, on the other hand, have been slightly standoffish to the newcomer, perhaps due to consumer confusion over the difference between soft and nonsheared merchandise. But as consumers begin to accept the new product as a lightweight, absorbent alternative to terry towels, discounters are becoming more receptive to carrying it. One Midwestern upscale discounter reports it is dropping a majority of its nonsheared towels in favor of soft.

The survey also points out that variety stores appear most con-

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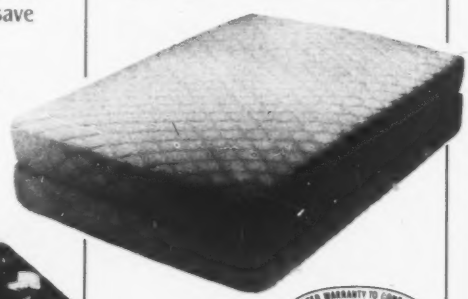

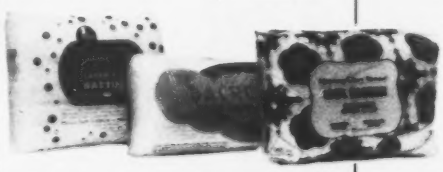

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Sales stage set for record comeback

Prerecorded music sales appear to be pulling out of their four-year tailspin and are climbing back into clear skies.

Sales of records and tapes are expected to pass $3.6 billion this year, a 10% increase compared to 1982. Retailers may be gleeful about "the beginning of a long-term bull market," as one describes it, but it will be years before the business regains the lofty heights it experienced in the 1970's.

One storm cloud on the horizon is the impending mass distribution of compact disk(CD) audio players. While no one in the industry doubts the fact that they will eventually replace standard turntables, when this will happen is up in the air.

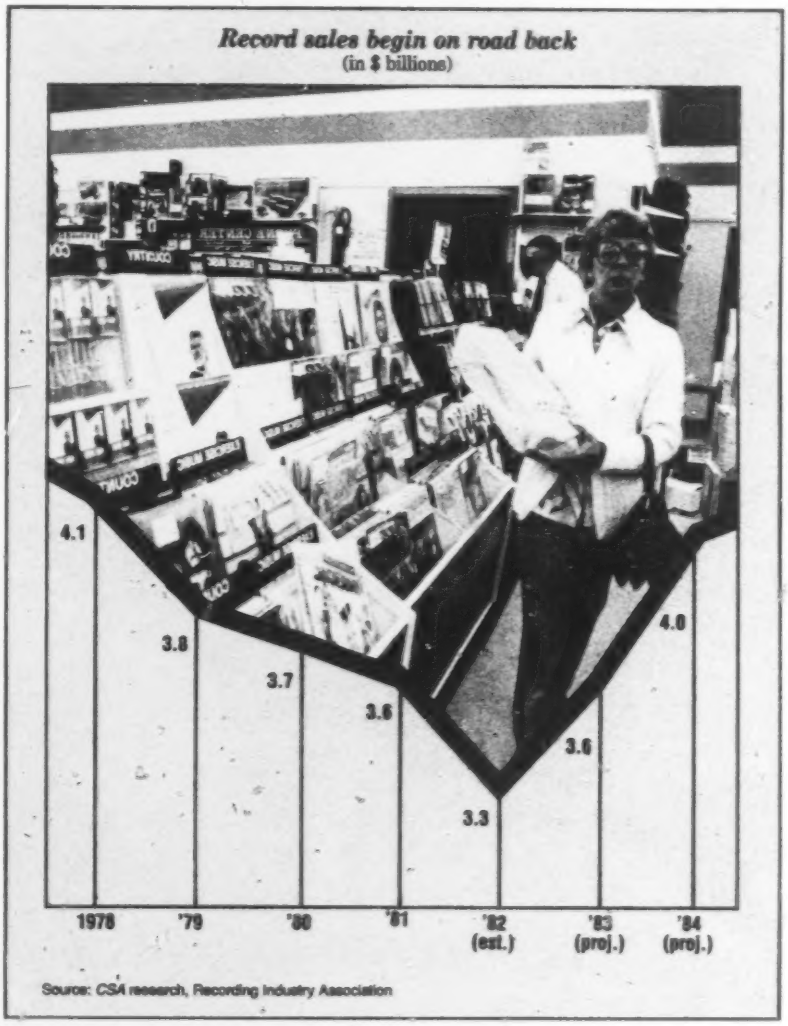
"Retailers aren't going to be hurt when the CD takes off," says a New York-based analyst, "because they can stock whatever the public wants. But manufacturers are faced with picking the time to start putting new releases on CD's as well as analog LP's. If they miss the turn, they're going to be hurting until they can retool and catch up."

In 1978, the last strong year for record sales, volume reached $4.1 billion. From that peak to last year's low of an estimated $3.3 billion, dollar volume declined 19.5%.

The general improvement in the economy, the slowdown in sales of video game cartridges, the stabilizing of top-10 LP prices at the $7.89 level, an almost universal lowering of catalog prices by record manufacturers and an improvement in the quality of rock music being produced today are all being cited as contributors to the upturn in sales.

But the single most important factor cited is the skyrocketing popularity of MTV(music television).

"The lifeblood of this industry is new product," notes Mario DeFilippo, vp/purchasing for the Handleman Co., one of the largest rack jobbers in the country. "MTV has had a dramatic effect on the business. Not only is it a major marketing channel for the artists and their work, but it has been like a shot in the arm to rock radio stations. There's tremendous excitement in the marketplace right now, and I think it will continue for years."



Record and tape sales will exceed $3.6 billion this year, but regaining the success of the 70's is a long way off

Prior to MTV, more and more top-40 stations were "sticking with the tried-and-true sounds," he adds. "MTV forced them into a competitive position."

The popularity of MTV is being used by retailers to enhance their own sales. Jefferson-Ward is currently testing MTV presentation in its North Miami prototype.

The "As heard on MTV" sticker is showing up more frequently on albums and in print advertising. Handleman, rack jobber for Sears and K mart among others, "has an agreement with MTV for the exclusive use of MTV's graphic design," says DeFilippo.

At the same time the recorded music market is reviving, sales of cassettes are passing LP sales for the first time.

"We asked Pickwick [a rack jobber] to increase the cassette selec-

tion in our stores," says the buyer for a $200 million mid-Atlantic discount chain. "They were able to add nearly 100 new titles on cassette in place of just one 5-ft. record rack. We found some open wall space for those records, so we really expanded our offering without adding any space."

Sears, too, is devoting more space to cassettes than records. In the chain's "Store of the Future" in Vernon Hills, a Chicago suburb, records have been relegated to about 17 ft. along the rear corner of the consumer electronics department, while a two-sided 10-ft. freestanding gondola of prerecorded cassettes is prominently located in the center of the accessory area.

Retailers have also begun to price LP's and cassettes equally. Tower Records in New York notes in its signing in the cassette department that no cassette is higher-priced than the comparable record. □

MTV spurs music industry growth

Rebounding record sales, expected to rise 10% compared to 1982, are just one sign of the revitalized music business.

A number of industry insiders credit the turnaround to the skyrocketing success of MTV and other music-format cable television services. Their popularity has already caused the three major networks to increase the number of music video shows they carry. Naysayers, however, credit sales momentum to the rebounding economy and still-growing trend toward all forms of home entertainment.

But statistics back up the assumption of MTV's power on the marketplace. A survey of MTV's 15 million subscribers earlier this year found that more than 60% have purchased or plan to purchase an album by a group first seen on MTV. Subscriptions to the service are increasing at a rate of about one million per month.

The explosion of rock video onto the American scene is causing marketers to rethink the whole record

industry.

For the first time in America (a rudimentary form of "rock video" first aired in Britain in the early 1960's), the buying public is being regularly exposed to new groups whose songs don't rate much radio air time or whose act may never play Peoria (or even Dallas for a New York-based group).

Struggling rock musicians, most of whom were ignored during the lean years from 1978 to 1982, are being courted today due to the economics of MTV exposure.

A video clip costs anywhere from $10,000 to $100,000 to produce. (Even at the high end, "that's about the cost of keeping a rock group in Coca-Cola and potato chips during a 30-city tour," quips one promoter.) Major recording studios are glad to foot this bill for targeted exposure to 9 million-15 million-plus potential purchasers.

Until now the videos were given free air time by MTV and other cable systems, but there is a move afoot to have studios pay for this air time. Even if cable channel operators are successful, the cost per impression will remain minimal compared to other advertising channels.

Retailers will reap the most concrete benefit from this "narrowcast marketing" by being able to focus promotions on the youthful, free-spending demographic customer base. Already some chains, such as Wal-Mart, K mart and Sears, are featuring "As heard on MTV" logos in their store merchandising and print advertising.

But tying audio disk sales to video presentation is only the first step in the revitalization of the rock music business. Major manufacturers, both record makers and video equipment companies, are working toward the next medium for rock music sales.

Branded video disks, which allow the viewer/listener to key in on a particular track, are already on the market, fueling the software sales side of the video disk industry. □

Upbeat plans for music videos

Prerecorded music videos haven't set the retail world on fire, but Sony expects that to change soon.

The best-selling music video to date has been The Complete Beatles, but volume has only reached 20,000 units. The entire video music business has been slow due to the high price points for the prerecorded tapes (approximately $60) and the relatively poor sound quality they provide.

Sony's answer to this slow turnover is a 15-minute video cassette for less than $20. Sony's national manager of video software, John O'Donnell, confidently predicts the new short-format tapes will boost overall sales volume for video music to more than $100 million by 1985. "Video is a way of upgrading the music product for the 80's. We think they'll re-create the excitement of the 60's and early 70's," he says.

The "under $20" price point puts the Video 45's in head-to-head competition with video games. "They're short, highly repeatable, just like a video game," O'Donnell notes.

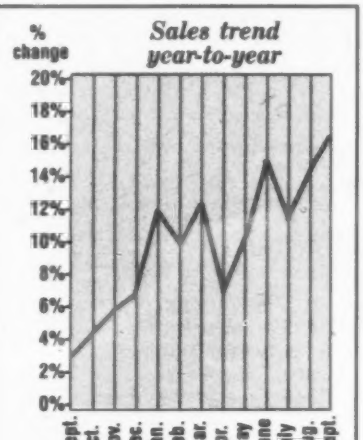
The bloom is already off the rose for video game cartridge sales, so consumers in the target audience (12- to 34-year-olds) will probably be more willing to redirect their discretionary dollars to the videos.

Ward scores solid September rebound

September may prove a benchmark month for beleagured Montgomery Ward. The Big 3 giant's comparable store sales soared 17.8%—the chain's strongest monthly gain in two years.

It was also a solid month for the 24 other retailers tracked in *CSA's* monthly survey. Sales were up 16.5% as all but eight chains posted double-digit increases.

But the real story was Montgomery Ward, which is heading for its first profitable year since 1979. Total sales were up 16.2%, led by big-ticket appliances, children's apparel and toys. "This is the largest monthly sales increase Montgomery Ward has experienced in 29 months," chairman Stephen Pistner said.



Composite of sales trends comparing monthly change vs. prior year for the 25 retail companies tracked by *CSA*.

Meanwhile, recent consumer activity continues to point toward a strong Christmas selling season. There was some concern in the industry late last summer that shoppers were pulling back. The Conference Board, a New York-based business research organization, reported that major appliance buying intentions had dropped in its August consumer survey.

Shoppers, however, continue to spend. Sears reported significant big-ticket durable sales for the 12th consecutive month. The chain logged an 11.2% sales hike (not including the company's Simpson-Sears subsidiary).

But K mart had a poor month judged by its recent standards. Sales were up only 8.8% (same-store sales were up 7.1%). Bernard Fauber, the company chairman, blamed abnormally warm fall weather for the weak performance.

Bentonville, Ark.-based Wal-Mart continued its usual trend by reporting a 17% same-store sales increase. Meanwhile, Braintree, Mass.-based Bradlees logged a 10% same-store increase.

Strong performers among department store chains were R. H. Macy, with a 14.4% comparable-store increase, New York-based Mercantile, with a 14.2% same-store sales hike, and Allied Stores, with an overall 11.8% increase.

September sales rise despite heat wave

Major chains	% change	Sept. sales* 1983	Sept. sales* 1982	Stores 1983	Stores 1982	8-mo. sales 1983	8-mo. sales 1982	% change
Sears[1,6]	+27.5	2,379,650	1,866,148	886	843	14,440,188	12,727,932	+13.5
Penney	+ 5.1	956,000	910,000	2,034	2,072	6,306,000	6,096,000	+ 3.4
Ward[1]	+16.2	554,633	477,359	376	388	3,603,804	3,407,709	+ 5.8
Federated[6]	+13.9	652,600	573,100	538	493	4,243,900	3,740,000	+13.5
Dayton Hudson	+23.0	587,640	477,581	1,058	941	3,943,117	3,205,695	+23.0
May Dept. Stores	+16.3	389,400	334,900	1,534	1,349	2,452,200	2,122,600	+15.5
R. H. Macy	+16.9	351,700	300,800	93	92	2,215,100	1,873,600	+18.2
Allied Stores	+11.8	346,000	309,500	561	570	2,155,900	1,887,400	+14.2
Carter Hawley Hale	+19.4	319,300	267,400	1,064	999	2,051,600	1,753,700	+17.0
Associated Dry Goods	+25.7	341,700	271,900	N/A	N/A	2,110,000	1,794,000	+17.6
Mercantile	+15.9	130,943	112,980	86	83	930,859	815,697	+14.1
K mart	+ 8.8	1,643,196	1,510,636	2,138	2,091	11,638,789	10,451,696	+11.4
Woolworth	+ 7.1	515,054	480,887	N/A	N/A	3,335,598	3,158,035	+ 5.6
Wal-Mart	+41.6	344,000	243,000	610	525	2,695,000	1,979,000	+36.2
Household Merch.[2,3,5]	- 5.2	220,507	232,651	3,706	3,802	1,775,272	1,852,894	- 4.2
T.G. & Y.	- 7.5	139,250	150,559	831	925	1,207,805	1,278,935	- 5.6
Zayre[4]	+17.7	237,085	201,472	708	612	1,528,853	1,286,190	+18.9
Bradlees	+45.9	112,200	76,900	123	98	650,000	478,800	+35.8
Murphy	+ 9.5	75,721	69,180	406	427	527,470	514,542	+ 2.5
Rose's	+31.3	55,010	41,896	243	236	488,109	394,554	+23.7
Hock's	+ 6.0	33,500	31,600	121	119	290,100	264,500	+ 9.7
Jamesway	+23.4	36,913	29,909	77	67	247,637	200,272	+23.7
Melville	+17.8	376,730	319,798	5,680	5,392	2,575,373	2,184,313	+17.9
Tandy	+14.6	198,476	173,163	N/A	N/A	1,560,278	1,325,918	+17.7
Edison Bros.	+10.4	96,988	87,887	2,162	2,129	715,880	648,965	+10.3
The Gap	+ 4.4	49,700	47,600	563	514	282,100	269,300	+ 4.8
Totals & averages	+16.5	11,084,646	9,448,247	—	—	72,763,127	64,433,312	+12.9

*000 omitted. N.C. = no change. N/A = not available.
[1]Store number for full-line outlets only. [2]Includes 2,833 franchise stores (vs. 2,831 a year ago). [3]Includes T.G. & Y. sales. [4]Includes 272 Zayre stores (vs. 265 a year ago), 330 Hit or Miss stores (vs. 268) and 106 T. J. Maxx stores (vs. 79). [5]Excludes supermarket sales. [6]Includes results from Simpson-Sears.

McCrory rides variety store profits

York, Pa.-based McCrory Corporation reported a 25.5% jump in operating profits for the first half of this year on the strength of its variety store operation. Profits climbed from $48.3 million in 1982 to $60.4 million for the period.

Profits for the McCrory Stores, the variety group, were up 115.8% from $11.4 million in '82 to $24.6 million this year. Sales were up a modest 8.9%, from $336 million in '82 to $366 million.

McCrory officials say a reduction in operating and interest expenses keyed the variety chain's strong profit performance. Profits at the company's Lerner Stores division, however, dropped 9.7% while profits for its OTASCO stores were up only 9.2%.